REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PECO.OQ - Phillips Edison & Co Inc at Bank of America Global Real Estate Conference

EVENT DATE/TIME: SEPTEMBER 10, 2024 / 6:15PM GMT

CORPORATE PARTICIPANTS

Jeffrey Edison *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Robert Myers *Phillips Edison & Co Inc - President*

John Caulfield *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

CONFERENCE CALL PARTICIPANTS

Jeffrey Spector *Bank of America - Analyst*

PRESENTATION

Jeffrey Spector *- Bank of America - Analyst*

(audio in progress) session with Phillips Edison. Thanks for joining us. I see a lot of familiar faces from our other retail meetings we've had so far in this room. (Conference Instructions)

To my left, we have Jeff Edison, CEO; in the middle, we have Bob Myers, President; and then to the left, John Caulfield. Similar to the other round tables, we give each company an opportunity to discuss themselves. Explain who they are, their positioning, differences maybe versus others within their space.

So I'll hand it off to the other Jeff. And then we'll ask questions.

Jeffrey Edison *- Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. Great. Thanks, Jeff, and thanks all of you for being here. I'm Jeff Edison. I'm the Founder of Phillips Edison & Company.

We started this business 30 years ago with a focus on buying grocery-anchored shopping centers. Our focus is to buy a grocer with the number-one or number-two grocery sales in a market. Our average center size is of 114,000 square feet. So these are rightsized grocery-anchored centers sort of at the corner of main and main in cities around the country.

We're in 31 states. We are very focused on taking the 300 properties, which are actually really 300 companies, each competing in a very specific market. And that's how we've approached the business over the 30 years. And it's been -- we've had the enjoyment of building a team that's been together for a long time. Bob has been with us over 20 years; John, almost 10. And we are very focused on a very specific niche in the shopping center business.

And our drive is to be with that number-one or number-two grocer. We're Kroger's largest landlord. We're Publix's second largest landlord. And those grocers drive traffic to our centers They are the best place for someone when they wake up on Saturday morning and they've got to get their necessity things done for that on Saturday, they come to our centers. And those are the centers that we buy. And we have -- we were at the highest level of occupancy of anyone in the retail business.

We have the highest rent spreads. We have the highest retention. And it's all driven by that format that really drives those results.

And we're -- we appreciate you all being here, and we would love to take your questions. And we're -- one thing that we are very active in the acquisition market. We buy somewhere between $200 million and $300 million a year in centers.

We also have a development program that does development, primarily smaller development around our existing centers to grow what we have at a specific asset. And that's allowed us to have sort of market-leading growth in our thing. So we have both this internal engine that drives growth. But we also have an external engine that drives growth and has been able to stay in this business for 30 years and build a great team.

QUESTIONS AND ANSWERS

Jeffrey Spector - *Bank of America - Analyst*

Jeff, over those 30 years, did you ever dabble and try to buy a big box or a mall or an outlet center or anything else? Are you -- over the 30 years, you really stuck with this formula?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. And that's the reason that we have stayed very focused. It's -- we've redeveloped malls. We've done ground-up development. We've done power centers.

We don't do that today. And the reason we don't do it is because we found a niche that through the cycles, performs very well. Just as an example, if you look at the pandemic, it would be like, well, that's a pretty tough time for retail. And we lost 0.6% of our occupancy.

And then you go back and we get questions like, okay, well, yes, but that was a weird one, right? That was the pandemic, what about the great financial crisis? Great financial crisis we lost 1.6% of our occupancy, and we're back at the same occupancy within 12 months.

So this necessity-based nature of what we do is what has allowed us to perform very well during tough times. We believe that with both our internal and our external growth, we can provide more alpha, but we also have a very strong beta protection in the necessity-based nature of our retailers.

Jeffrey Spector - *Bank of America - Analyst*

And in terms of the strategy of owning one or two in a market, I think one of the big surprises that we've seen since we've covered you and our former retail guru, Craig Schmidt, would see -- observed was that how sticky that one or two is.

I mean, we admit we thought that maybe it's easy for a competitor to try to steal that one or two, to develop around the corner or down the street in some of these markets, but it's been fairly sticky.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

It has been, and it's actually really driven by the customer. And the reason is that when you shop at a grocery store, it takes you to learn a new grocery store, takes you 45 minutes to an hour to get the same things that you would have gotten at the one that you knew.

And so there is a strong retention of customers. And that has, for us, been the reason that the grocers when they're there and they are doing strong sales. So the number-one or -two grocer to start with when we buy them, they have a really good stickiness. And we -- that's been one of the advantages we have.

And then the small stores who feed off of that traffic, they are also sticky. I mean our -- we get a lot of questions because we have about 27% of our occupancy is local neighbors. We call our tenants our neighbors. They -- those have been, on average, with us 9.5 years. So these are not quick in and out kind of fly-by-night retailers.

These are strong entrepreneurs who have been on average with us almost 10 years. And that they're doing that because they're making money at those centers.

Jeffrey Spector - *Bank of America - Analyst*

By the way, that's -- it's a great point on the one or two stay ranked one or two. I was also thinking that the one or two stay in your center that they're not stolen by a new developer, right, they've stayed in your center.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. When you look at the cost structure of a grocer, the rents -- if the rents are in that lower range, it helps their profitability and their margins, obviously. Our average cost is 2.2% of their sales. And so for them to move they're going to move to 5%, 6%, at least in terms of their occupancy costs. And so there is also that inertia, which keeps them there and keeps them from somebody coming in and being able to replace them.

And then probably most importantly is that we're at the corner main and main. Our centers are located where they want to be. And we work with them constantly and have for a long time. helping them build new stores like Publix does that tear down rebuild program that we've been very active with.

But also Kroger's putting money back into their stores to upgrade them. We're helping them in that process. We're helping them get BOPIS, so the BOPIS is really a focus buying online and picking up in the stores. We work with them to make sure that they have the right setup for that.

And we also do that for our small stores as well, making sure that it's an omnichannel approach to retail. And in today's market, that's what the consumer demands. They don't -- it's not profitable for the grocer. It's not very profitable for the small stores. But retaining their customers is very important.

And most customers do not do one thing only. They do BOPIS sometimes; they get -- they go into the store and pick up stuff sometimes and then they want home delivery sometimes.

So in order to maintain that, you really do have to have an omnichannel approach, which is very important for us when we're bringing new neighbors into our centers that they have that approach. And it's one of the things that we do on the leasing side that I think has allowed us to continue to be a very strong -- have a very strong position in the markets that we're in.

Jeffrey Spector - *Bank of America - Analyst*

And let's talk a little bit more about your markets. Again, the strategy is owning the number-one or number-two grocer in that market. Can you talk a little bit about your geographic diversity and the decision to be in your markets? We focus a lot as analysts on demographics. And what are some of the lessons learned over the years on markets, demographics versus that number-one and number-two grocer?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, like our mantra is we want to make money where the grocers make money. And the grocers do not compete on a regional basis or a SMSA basis, they compete on a certain corner. And they have a certain competition among that, and they got a certain customer that they have to attract. And if they do that, they will be successful.

So we are in 31 states, and we're there very intentionally. We're not just coastal. We're not just major city, because that's not where our main tenants, which is the grocer. They -- if you want to go to a Kroger in Manhattan, good luck, or even a Walmart, I mean or Publix.

I mean they aren't there; they are where the customer is. They've known very early on that the convenience of being close to your customer is what drives their success. And that's why we kept with that strategy.

Jeffrey Spector - *Bank of America - Analyst*

And I know you already touched on this, but I guess let's talk a little bit further, because it's come up in other retail meetings today on the demographics and cycles. I guess, demographics cycles, you talked about the world financial crisis, a loss in occupancy. I guess the risk around the small shop tenants.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. We get that question a lot. And what we -- one of the reasons we didn't lose occupancy in both the great financial crisis and the pandemic is because of the necessity-based nature of our product. Our shopping centers provide the best opportunity for the customers, the most convenient place to do their necessity shopping.

And as long as we can continue to have that driver, we have less beta. Because of our internal and external growth, we have a really strong alpha. So we can actually do both protect on the downside but provide strong upside.

Jeffrey Spector - *Bank of America - Analyst*

And then on -- I guess, to just finalize the topic on markets and positioning, I guess, thinking about the next five years and some of the trends we've seen with migration, our BofA Institute this morning talked about that continue to move to the Sunbelt away from the coast. How are you thinking about the PECO portfolio in markets over the next 5 to 10 years?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

So having done this for a long time, about 10 years ago, we started -- we put together an algorithm that helps us to determine as we're buying new properties as well as managing the properties that we have, the strength of each center. And that ability to understand how that drives the results that has pushed us -- it tends to push us to more growth markets.

So we are -- half of our centers are in the Sunbelt. That's not because we want to be in the Sunbelt. It's because we want to be in that 3 mile radius where the growth is and where we can actually really drive our results and be able to drive our rents. So that sort of thing.

On the demographic side, our median household income is $87,000, which is about $10,000 higher than the average for Publix and Kroger. But still, in a range where the average American shops for their goods and where the average necessity-based retailer wants to be close to that customer.

Jeffrey Spector - *Bank of America - Analyst*

And maybe just one more follow-up on the demographics. As you mentioned, household income. Again, we focus a lot on demographics, maybe too much of demographics, density, household income, is there something in particular that you do feel is important? Or again, as long as you're above these -- like you said Publix, I think, and you say Kroger, yes, which is strong, that's the clearing, and that's good enough. And it's -- again, most important is the number-one, number-two grocer in the market.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. Demographics are very important. And they're a key part of what we buy. With the right-sized center, the demographics that we have have produced market-leading rent spreads, market-leading occupancy, market-leading retention, market-leading retention spreads, because they are the right value for the retailer. And we believe strongly that if you merchandise your center and maximize the sales of your center, we can also maximize the growth of those properties as well.

Robert Myers - *Phillips Edison & Co Inc - President*

Just to add on to that, too. I mean, another factor that we enjoy looking at is education. So it's great to have people that are educated and also population growth. So as you think about 87,000 people in a 3 mile, median incomes, and I believe our 3 mile population is 67,000 people, we also heavily look at education and market growth.

And that's what we've done for 30 years. And we see that success; Jeff's touched on it. But market-leading spreads. Our occupancy is 97.5% with our anchor occupancy at 88.8% -- yes, I'm sorry, 98.8% and our in-lines at 95.1%. Our renewal spreads were 20.5% with CAGRs of 3%. Our new leasing spreads in the second quarter were 34.4%.

So when you think about our necessity-based strategy, we're 70%, the income is coming from necessity-based goods and services, the demand has been awesome, best operating environment I've seen in 30 years. And you'll continue to see demand from fast casual restaurants, health and beauty, [med tail], a little bit of fitness as an example.

And so we want to complement that to Jeff's point earlier, is that all recession-proof? Well, it certainly helped us in a great financial crisis and then COVID. We bounced back very quickly. And to Jeff's point, we do have market-leading spreads. So it's been a great recipe owning the number-one, number-two grocer or being closer to the consumer.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. And there have been some tailwinds that have been very helpful for us. I mean when you think about the moves to the suburbs, if you think about working from home, all of that, you think about buying local, you think about last-mile delivery, all of those things have been tailwinds.

And at the same time, we've had the strong tailwinds from the retailers, there's been basically no new construction in the retail side of the business. And when you put those two together, we're really good at what we do, but we've also been very lucky to have a really strong operating environment. And we don't anticipate new construction in our business until rents almost double and to any significant amount.

If you think about that, that gives us a lot of runway to continue very strong growth.

Unidentified Participant

About the acquisition environment (inaudible) in cap rates (inaudible).

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. The market last year was probably one of the most difficult acquisition market. We bought about $280 million worth of new centers last year, but it was really hard. There were not that many sellers and there were no buyers.

What's happened as rates have come up, cap rates have spread about 75 basis points, they probably come back about 25 basis points over that timeframe. And so we're in an environment where there is today more product on the market, but there are also more buyers. People are realizing the grocery-anchored shopping center business that we've been doing for 30 years is the place to be. And it's bringing more buyers into our markets.

So we underwrite all of our acquisitions to over a 9%, unlevered IRR. And we think that that combination with our cost of capital gives us the ability to have somewhere in the mid- to high-single-digit FFO growth combined with the 3.5% dividend gives you a low double-digit annual return. Does that answer your question? I'm sorry.

Unidentified Participant

Yes, in terms of -- what about IRR -- what about like going in cap rates?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Going in cap rates? As we say, we're really not cap rate buyers. We're IRR buyers, but what they -- when you back into it, it's in the sort of 6% to 6.5% range. There have been some more aggressive buys in the mid-5s this year, but that's generally where we see it. I know you were -- you had a question.

Unidentified Participant

I actually have two questions. The first is the spreads on the (inaudible). So is that a form of being (inaudible) environment now where you can read your (inaudible)?

Robert Myers - *Phillips Edison & Co Inc - President*

I would say it's twofold. I mean, we do have a very high retention rate of 89%, which is certainly helpful. The demand, the lack of supply also has been. But I think it's just overall where our occupancy is 97.5% and that the retailers and I'm talking to the retailers every day. And they're trying to find new locations for '25, '26 and '27.

So as long as we see that and then most importantly, it's really the health of our neighbors and occupancy costs for them right now are running around 9.5%. And we think we can grow that over the next five to eight years to between 11 and 15. They all report sales, so it's nice to have color when we negotiate the renewals, and we're seeing the benefit of that.

Follow-up question. I believe you mentioned if you thought we were going to hit our guidance, we've closed on $180 million so far year to date. And we have good visibility into our pipeline, the remaining of the year and feel very confident that we'll be $250 million or at the higher end of the range. So we have a very nice pipeline.

And to Jeff's point earlier, mean the number of deals we're looking at an investment committee and OMs is up about 35% from last year. So I feel encouraged by the activity.

Jeffrey Spector - *Bank of America - Analyst*

In terms of -- you mentioned -- and again, I know it's been a theme for a long time now, limited, no new construction, but you did mention that you did ground up in the past. As you said, you do development on parcels, et cetera. I mean, would you consider doing ground up again on -- I think you said it would take 2 times -- rents to increase 2 times, but --

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

If we can get -- if we can underwrite it to a reasonable return, yes. But it's going to be a very small part of the business. And it will be basically grocers who are expanding into new markets. Publix is expanding into some new markets. HEVs expanding into some new markets. Hy-Vee's expanding into some new markets.

So it will be somewhat along those lines, and it will be a very specific case. I wouldn't -- we don't see it being a major part of our business. But we've done it a bunch of times, so we know how -- I mean, it's a natural part of -- just because of our relationships with the groceries over 30 years, we have the ability to do that.

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

And Jeff, if we get to the double basically by saying the acquisitions that we're making, we think are somewhere between 40% and 50% of replacement cost. And so ultimately, between that knowledge and the knowledge when we will execute a teardown rebuild for public where we know where their rent was to where their rent goes, that's what gives us that knowledge of it's just very expensive in the construction environment.

And eventually, they may get to the point, I'm speaking more retailers than the grocers, they will get to that point, but that's a long way to go from a grocery perspective.

Unidentified Participant

(inaudible - microphone inaccessible)

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure. So if you're looking at maintenance capital, which I would include just general maintenance capital plus tenant improvements and leasing commissions and the like, we're around 12%, 13% on the percentage of NOI on a pretty long-term basis. And then we spend a couple of points more. We spent about $40 million to $50 million a year on development and redevelopment.

And that's what Jeff was speaking to is we're building out parcels. We might build some additional GLA at our centers. Again, we're at 98% occupancy. So to the extent we can -- we've got the demand, and those are going to get the best rents, because typically, they're out on the main driveline, but we think that, that capital is pretty stable to actually, over time, it actually could decline a little bit, maybe 100, 200 basis points or so. But it's pretty consistent.

I do think one thing that we've hit on here that's important is we talk about format drives results. And ultimately, part of the business model is focused on the grocer, but focusing on that neighborhood center minimizes our exposure to those secondary large boxes. That's where the disruption has been. So if you look at a third of our rent comes from the grocer, about 13% comes from non-grocer anchors. And the largest of those is the T.J. Maxx brands in total at 1.3% of our ABR.

So ultimately, that has been -- actually really helped us. Because when you look at that, that has been where a lot of the disruption has been over the last five to seven years. But then you also look at where the demand is for -- from national retailers, from regional and local, it's in those smaller spaces.

So outside the grocer, our average space is 2,500 square feet. And I think using CoStar data this year, and this has been true since our IPO, it's about 65% of leasing demand is in that smaller space, that 2,500. And we'll get back to the point, I promise here it is, which is those smaller spaces, there's more demand and they take less capital than those larger boxes.

And I think that's where the capital and our capital as a percentage of NOI comes in is because we're not backfilling a lot of Bed Bath boxes where ultimately, if you have to cut the space or cut off the back, I mean that's a very capital-intensive proposition. So given our leasing and focus on in-line and the capital we put to that, allows us to maintain a pretty consistent low CapEx as a percentage of NOI.

Unidentified Participant

(inaudible - microphone inaccessible)

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. So we have -- since we started the company a very strong philosophy, which is higher from within, which we believe is very critical. And that if you want to advance in the company, you have to have a successor for your position and you have to train them, you have to bring them along and they have to be ready, battle-ready when they move into that position. And so that has -- it's been an important part of our thing. We have a succession plan for every one of our senior people and there are a few positions that will go out (inaudible).

General counsel is a good example where you really can't bring a general counsel along. But as a whole, we have on the operating side. And it's a great example is Devin Murphy, who was our President, stepped down. Bob took his position. Bob has been with us for 20 years.

His successor with Joe, who has been with us 19 years. This is a very important part of the culture of the company that we -- first of all, we learn stuff at every property we buy for 30 years, but we want to retain that. And the way you retain that is to keep your people on a long-term basis, and we have a really strong track record of doing that. And it's an important part of sort of who PECO is. And it's not perfect for everybody, because we're demanding and we like to win, but it's worked really well.

Robert Myers - *Phillips Edison & Co Inc - President*

I can assure you working for this individual for the last 20-some years that he has a significant amount of fire still left in the tank.

Jeffrey Spector - *Bank of America - Analyst*

Not resting on your laurels.

Robert Myers - *Phillips Edison & Co Inc - President*

And we do see sometimes people later on, they don't want to take as much risk. But it sounds like in terms of acquisitions, obviously, still --

---

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Every associate in PECO has stock in the company. We own -- the management team owns 8% of the company. I think it's the highest of any of the peers. From a very -- when you first come into PECO, you start to think like an owner, because we -- everyone totally aligned with our investor base and have for -- since we really started the company, it's an important part of debt. And it's one of the reasons we've been able to keep people on a long-term basis.

Jeffrey Spector - *Bank of America - Analyst*

Can we talk about grocer brick-and-mortar, e-commerce, grocery today in the United States? Where do we stand in terms of percentages and where do you see it going from here, the importance of brick-and-mortar for grocer and what your retailers are saying and doing?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Well, if you step back five years we had more questions about retail Armageddon from the Internet taking over all of retail. What people didn't look at was for the retailer, for every grocer that has to deliver goods to your house, they lose money. The only reason they're doing it is they want to retain you as a customer, because you will shop in the store, if you're a customer of theirs as a certain percentage of your sort.

The retailers are pushing towards BOPIS because it's at least a breakeven for them. And BOPIS is where they put everything together, and they deliver it to your car, but you pick it up at our shopping center.

Great for us because we still get the full traffic. And before they pick up their groceries, they will go and get their hair done or their nails done or get to work out in or get a smoothy, like that's been an important evolution for us. So it's really important as a retailer to have an omnichannel approach, if you don't have an omnichannel approach, you will lose customers. And that's the hardest part.

But the online only problem is it's very expensive to acquire customers. And they -- and it's a fraction of the cost if they -- if you have a brick-and-mortar shopping experience versus having to do it online. It was relatively inexpensive to acquire customers for a long time. And now it's very expensive to acquire online customers. And so that has really changed the perspective.

And if you look at some of the ICSC research, what they will show you is that they call it the halo effect, when you have bricks and mortar, your online goes up. And it is -- and when you lose the bricks-and-mortar, it has a huge negative effect of your online business. So what you're seeing and have now consistently is almost nobody who's not moving -- who is online-only who's not moving to a bricks-and-mortar solution as well.

Unidentified Participant

So on that (inaudible) your leases then will have a (inaudible) the sales held for that store is on an online (inaudible)?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

We wish we had them 100%. We do on a lot of our neighbors, but not all. We push for that pretty hard. But it is -- because we as part of both of our leases, we have a percentage rent clause that we get a percentage of the rent for the certain sales amount and --

---

Unidentified Participant

The sales will come from that store? That's my question.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

The answer is sometimes. And we get a lot of arguments about that. But we -- it's --

---

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

We have seen increases in our overage rent post COVID because grocery sales have increased 35% over the last five years. So we do get into the overage and our overage rent is increasing. But even then, it's maybe $3 million a year on $400 million plus of revenue.

The other pieces of the groceries don't love that either. So a lot of times, they want to get a fixed component. So what will happen is we'll -- as part of negotiations for consent, additional term, things like that, a rent increase, they'll want to fix that. And so it ends up becoming back into the base, which is part of why that overage rent number never goes -- it's never that large right.

Jeffrey Spector - *Bank of America - Analyst*

I know we're running out of time. Can we turn to the balance sheet and your recent unsecured raise?

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

We've been working hard. So earlier this year, we received positive outlooks from Moody's and S&P, which I was disappointed with. But then they came around and in August and just this past Friday, we are now BBB flat, Baa2 as both S&P and Moody's improved or at least caught up on the credit ratings that our fixed income investors did realize.

And yesterday, we successfully raised $350 million, our second issuance of the year, coupon was 4.95%. This does several things for us. One, it allows us to continue to ladder our maturities. So we -- this was a long 10 year. So it took our weighted average lease -- debt duration from around 4.8, 4.9 to 6.1, including the extension options we have on the few term loans we have left. It continues to build our bond trading history that will allow us more efficiency in that market.

It was very successful. We had some new investors, but a lot of investors that have participated in our previous and on our previous bonds, they came into this as well. And at that interest rate, we were very pleased with that because it does allow us to continue our growth. The purpose -- the use of proceeds was we pay down the line. We use -- we paid down the line.

We have no meaningful maturities now until almost 2027. So I think that's a key thing from a cost of capital and a growth perspective, is maintaining optionality and great flexibility. We have our line, which is $800 million that we have available to us to continue our growth plans. We're 5.1 times levered on a debt-to-EBITDA basis and with a long-term leverage goal of 5.5 times. So the key thing is to maintain the liquidity, the balance sheet optionality to allow us to execute those growth plans.

Since the IPO, we've had a target of buying $200 million to $300 million a year in acquisitions. And we can do that while maintaining that 5.1, 5.2, 5.3. Like in the low 5s, we can continue that growth. And that's something that we have been doing for a really long time, which is continuing to buy through all markets. matching the capital that we're deploying so that we can ensure that we're getting the returns that we believe we are.

Jeffrey Spector - *Bank of America - Analyst*

Great. I know we're out of time, but we are doing three rapid fire questions. Rapid responses.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Please, [Andrew].

Jeffrey Spector - *Bank of America - Analyst*

Okay. First, do you expect real estate transactions to increase once the Fed starts to cut, yes or no?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes, but it will take a little time.

Jeffrey Spector - *Bank of America - Analyst*

Okay. Well, the second part of the question is: when do you expect them to pick up between 4Q this year first half next year or second half of next year?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

How quickly are rate is going to come down and stabilize? That's when they will. The stability of interest rates is what will drive that. So there's an acceptance of where rates are going to be. I think the treasuries already moved there pretty close. So I think we're starting to see more volume come today.

Jeffrey Spector - *Bank of America - Analyst*

Second, how would you characterize demand for space today, a, improving; b, steady; or c, weakening?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

I would say steady, if not improving.

Jeffrey Spector - *Bank of America - Analyst*

Okay. And finally, how would you characterize your AI spending plans over the next year? Higher, flat? Or lower?

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Higher. We have every department in the company has an AI sort of sponsor. And each department is responsible for bringing an AI project by our annual meeting of February next year that will be happen.

And these are not transformative things. These are like HR. HR now has CallHR --

---

John Caulfield - *Phillips Edison & Co Inc - Chief Financial Officer, Executive Vice President, Treasurer*

AskHR.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

AskHR. And you've got an HR and ask any HR question, so that it basically is increasing the efficiency of the HR department. We have that across the board in terms of the games. But we're using our own information. We're not -- we haven't really broadened it widely yet. And we'll see some -- maybe some of the departments will.

Jeffrey Spector - *Bank of America - Analyst*

Great. Thanks so much for the PECO team.

Jeffrey Edison - *Phillips Edison & Co Inc - Chairman of the Board, Chief Executive Officer*

Yes. Thank you.